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# DOME PETROLEUM LIMITED

1971 ANNUAL REPORT AND FIRST QUARTER 1972

## FRONT COVER

Dome drilled the first well in Canada's Arctic Islands at Winter Harbour on Melville Island during the winter of 1961-62. Drilled to 12,543 feet, the well discovered non-commercial gas and proved the feasibility of winter operations in the area.

## ANNUAL MEETING

The Annual General Meeting of the Shareholders of the Company will be held at the Royal York Hotel, Toronto, Ontario, on April 24, 1972, at 11:30 a.m. A formal notice of meeting and proxy form are enclosed with this report. Please return your proxy if you are unable to attend the meeting.

# DOME PETROLEUM LIMITED
## ANNUAL REPORT 1971



## OFFICERS

CLIFFORD W. MICHEL,
Chairman of the Board

JOHN P. GALLAGHER,
President

WILLIAM E. RICHARDS,
Executive Vice-President and Secretary

CHARLES S. DUNKLEY,
Vice-President

DONALD M. WOLCOTT,
Vice-President

JAMES B. REDPATH,
Vice-President

HENRY T. ASTLE,
Treasurer

FRASER M. FELL,
Assistant Secretary

## HEAD OFFICE

706 - 7TH AVENUE S.W.,
*Calgary, Alberta*

## REGISTRARS AND TRANSFER AGENTS

CANADA PERMANENT TRUST COMPANY
*Toronto, Ontario; Montreal, Quebec; Regina, Saskatchewan; Calgary, Alberta*

THE BANK OF NEW YORK
*New York, N.Y.*

## GENERAL COUNSEL

FASKEN & CALVIN
*Toronto, Ontario*

## AUDITORS

CLARKSON, GORDON & CO.
*Calgary, Alberta*

## STOCK LISTED

TORONTO STOCK EXCHANGE
MONTREAL STOCK EXCHANGE
AMERICAN STOCK EXCHANGE

# COMPARATIVE HIGHLIGHTS

## FINANCIAL SUMMARY

| | 1971 | 1970 |
|---|---|---|
| Gross Income (after royalties) | $41,510,000 | $28,589,000 |
| Cash Income from Operations (after interest) | $15,902,000 | $13,118,000 |
| Cash Income per share | $1.55 | $1.29 |
| Income before Extraordinary Items | $10,203,000 | $8,027,000 |
| Income before Extraordinary Items per share | $1.00 | $0.79 |
| Net Income (after all charges) | $10,620,000 | $10,105,000 |
| Net Income per share | $1.04 | $1.00 |
| Average Shares Outstanding | 10,235,000 | 10,153,000 |
| Working Capital Deficit | $ 3,671,000 | $ 3,421,000 |
| Long Term Debt | $73,102,000 | $74,377,000 |

*Share figures are adjusted for 1971 stock split.*

## OPERATING SUMMARY

| | 1971 | 1970 |
|---|---|---|
| Oil and Natural Gas Liquids Production (net barrels) | 7,695,612 | 6,512,822 |
| Gas Production (billion cubic feet) | 50.7 | 54.1 |
| Remaining Oil and Gas Liquids Reserves (net barrels)* | 109,500,000 | 114,000,000 |
| Remaining Gas Reserves (billion cubic feet)* | 1,297 | 1,306 |
| Wells Drilled | 81 | 92 |
| Land — Gross Acres | 22,112,066 | 22,255,941 |
| Land — Net Acres | 16,403,228 | 17,209,425 |

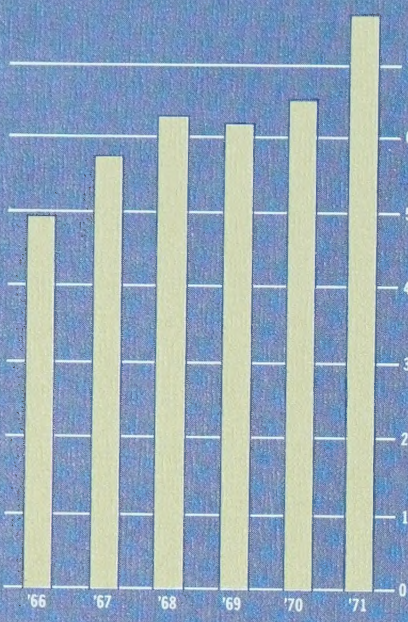
**Excludes reserves processed at the Steelman, Edmonton, Cochrane, Coleville and Empress plants.*

## FIRST QUARTER 1972 SUMMARY

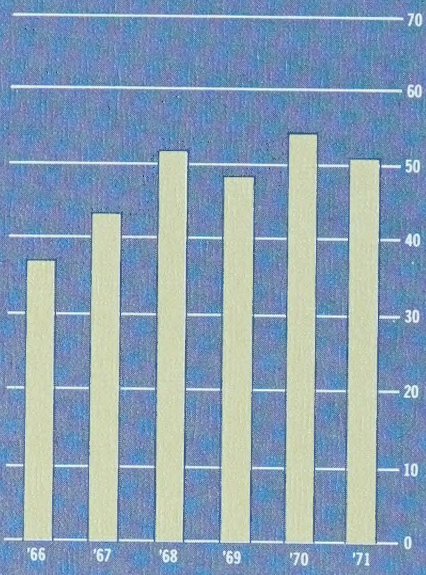
| | 1972 | 1971 |
|---|---|---|
| Gross Income (after royalties) | $12,760,000 | $10,114,000 |
| Cash Income from Operations (after interest) | $ 4,771,000 | $ 4,397,000 |
| Cash Income per share | $0.46 | $0.43 |
| Net Income (after all charges) | $ 3,061,000 | $ 2,891,000 |
| Net Income per share | $0.30 | $0.28 |
| Oil, Natural Gas Liquids and Oil Equivalent of Gas Production (net barrels per day) | 36,200 | 29,250 |

*First quarter figures are unaudited.*

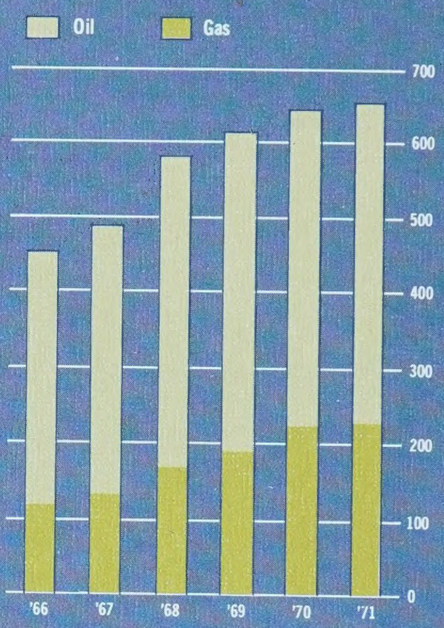
## OIL & NATURAL GAS LIQUIDS PRODUCTION



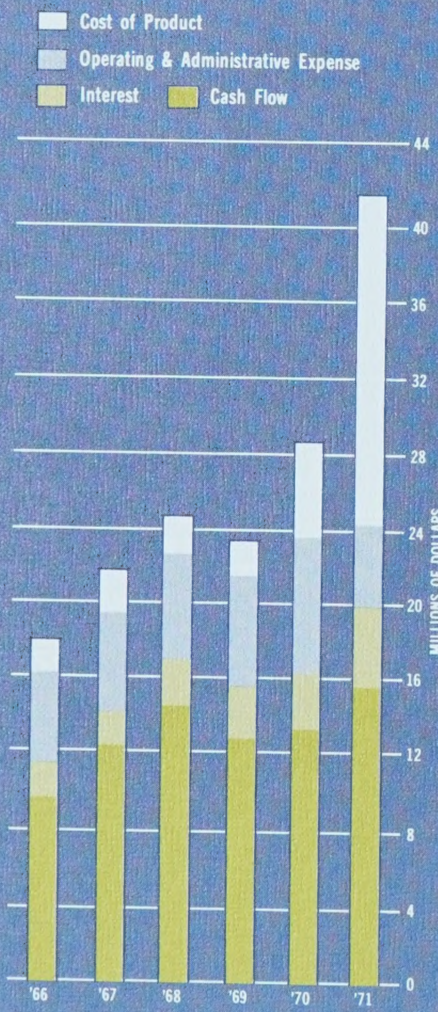

## GAS PRODUCTION



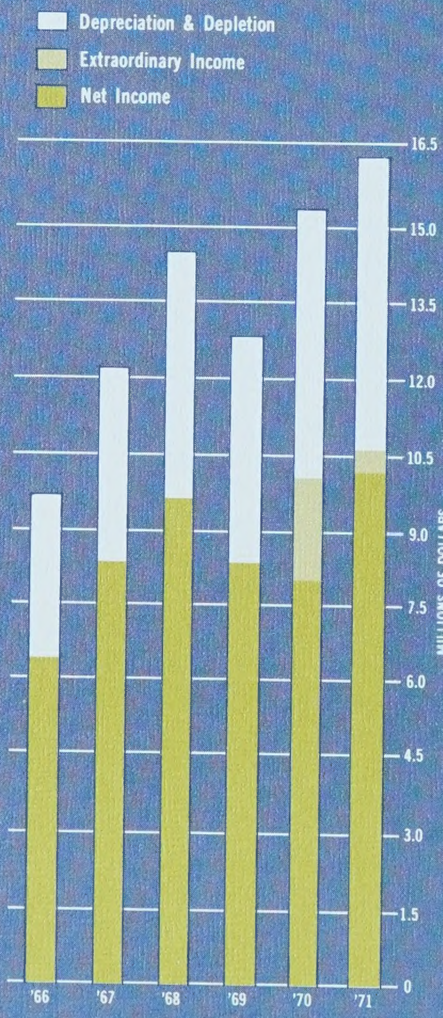

## NET PRODUCING WELLS



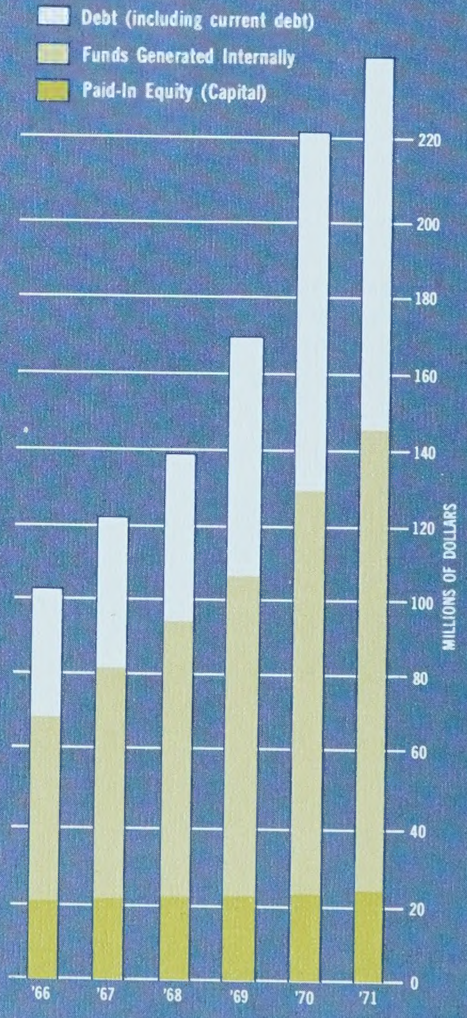

## GROSS INCOME




## CASH FLOW
(after extraordinary income)




## CUMULATIVE GROSS INVESTMENT
(at original cost)



# REPORT OF THE DIRECTORS

## TO THE SHAREHOLDERS

During 1971 progress was made in a number of areas vital to your Company's future growth:

- An agreement was reached with three large gas companies which will spend a minimum of $30 million in exploratory drilling on Dome's Arctic Islands acreage over the next five years. The first well in this program is scheduled to commence on King Christian Island in September, 1972. This agreement is in addition to the commitment by Columbia Gas Development Corporation to spend $30 million on Dome lands over a three-year period.

- Panarctic Oils Ltd. continued its large scale exploratory program in the Canadian Arctic Islands with a gas discovery at Kristoffer Bay on Ellef Ringnes Island, an oil discovery at Romulus on Ellesmere Island and a successful stepout from the 1970 gas discovery well on King Christian Island. In addition to its 4.06% interest in Panarctic, Dome holds over 7.5 million acres of petroleum and natural gas rights (6.3 million net acres) in the Arctic Islands, much of which is in close proximity to the Panarctic discoveries.

- The second phase of Dome's integrated natural gas liquids system was completed with the start-up of the 1.5 billion cubic foot per day extraction plant at Empress, Alberta and an expansion of the Sarnia fractionation facilities.

- Agreement was reached with Columbia LNG Corporation involving the sale of 85,000 barrels per day of ethane and other natural gas liquids for delivery in Ohio via a proposed 2,000 mile products pipeline. Design of the $200 million pipeline network from Western Canada to Sarnia, Ontario is now in progress. Applications have been made for the necessary governmental approvals. Dome's share of this project will be at least 70%.

- A contract was concluded with Consumers Power Company of Michigan for the sale of 50,000 barrels per day of natural gas liquids commencing in January, 1973. Dome's share of this sale will be 37%.

- Production of oil, natural gas liquids and oil equivalent of gas at 28,185 barrels per day and gross income at $41,510,000, reached record levels in 1971. Cash income, after interest, increased 21% to $15,902,000 while net income, before extraordinary items, increased 27% to $10,203,000.

- In August, 1971, all issued and unissued shares of the Company's common stock were split three-for-one and were converted to shares of no par value.

The graph of Gross Cumulative Investment on the opposite page gives some indication of the Company's heavy capital expenditure program and the source of funds used to finance this program. The increase over the past three years is attributable to the build-up of the natural gas liquids system. A major part of Dome's future cash flow will be used to enlarge this system and meet debt service requirements.

The Company's expanding exploration program, which is concentrated primarily in the high risk, high potential frontier areas of Canada, is now being financed with funds obtained from the disposition of a small interest in Dome's wildcat lands. In 1971 over $8 million of exploration capital was raised in this manner. During the next five years, the amount will grow to at least $60 million. Although these expenditures by other companies are not included in Dome's fixed assets, the effect is much the same as direct expenditures by Dome involving no additional debt or equity financing.

During the past year, three of the Directors of the Company retired, one new Director was elected and the size of the Board was reduced to eight members. The contributions made to the Company by the retiring Directors, Messrs. Henry C. Brunie, Bryce R. MacKenzie and Charles E. Main, are gratefully acknowledged. The new Director, Mr. Fraser M. Fell of Toronto, has held the position of Assistant Secretary of the Company since 1959.

Our employees have again demonstrated their resourcefulness and dedication. With their continued efforts and your continued support, we look forward with optimism to the years ahead.

April 3, 1972

C. W. MICHEL,
*Chairman of the Board*

J. P. GALLAGHER,
*President*

# EXPLORATION REVIEW

During 1971, the Company participated directly in the drilling of 56 exploratory wells, 39 of which were drilled at no cost to Dome. This program resulted in eight successful gas wells and two oil wells. Significant gas reserves were discovered in the Peggo-Helmet area of northeastern British Columbia and at Wolf Creek in Alberta. The Dunvegan gas field was extended and minor reserves of gas and oil were found in southeastern Alberta and at Bistcho Lake in the northwestern part of Alberta. In addition, through your Company's 4.06% interest in Panarctic Oils Ltd., Dome participated in the major gas discovery at Kristoffer Bay on Ellef Ringnes Island and the indicated oil discovery at Romulus on Ellesmere Island in the Canadian Arctic.

* * *

Extensive geophysical surveys were undertaken during the year in evaluation of untested acreage. Noteworthy were seismic programs conducted on Company acreage on King Christian Island and Ellef Ringnes Island in the Arctic Islands, and in the Fort McPherson area south of the Mackenzie Delta. In the Beaufort Sea, offshore from the major discoveries of gas, condensate and oil in the Mackenzie Delta, Hunt International Petroleum Company conducted a 1,700 mile marine seismic survey on Dome's wholly-owned 1,544,000-acre block. Hunt has committed to drill a 12,000-foot well on this property, commencing in 1973, in order to earn a checkerboard 385,000 net acres. Additional reconnaissance seismic surveys were conducted in the same area over a wholly-owned 686,000-acre block not subject to the Hunt agreement. Both surveys indicated numerous potential hydrocarbon traps.

* * *

The continued success of Panarctic's exploratory drilling program is most significant to your Company, not only through Dome's direct participation in Panarctic, but also through the enhancement of much of Dome's 7.5 million gross acres (6.3 million net acres) in the Arctic Islands. Major gas fields have been discovered to date at King Christian Island, Kristoffer Bay on Ellef Ringnes Island and at Drake Point on Melville Island. An encouraging oil recovery from Panarctic's Romulus well on Ellesmere Island is especially significant due to this Island's accessibility by ice-strengthened oil tankers during most months of the year.

The map on the following page highlights the central part of the Sverdrup Basin, where Dome holds interests in 3.63 million gross acres (2.37 million net acres) within a radius of 125 miles of the Kristoffer Bay gas discovery. The northwestern extension of this major structure appears to extend under Dome's 331,400-acre block (203,700 net acres) on the Noice Peninsula which, together with three other indicated structures on this acreage, will be seismographed during the first half of 1972.

Your Company has contracted a drilling rig which is scheduled to be shipped to King Christian Island in the third quarter of 1972 to commence drilling the initial exploratory well in a multi-well drilling program on Dome's acreage in the Arctic Islands. This first well will be located on a wholly-owned 190,000-acre block on one of three large structures outlined by reconnaissance seismic and gravity surveys conducted in 1971. These structures are in addition to that on which Panarctic has discovered a major gas reserve on the same island. Additional geophysical surveys are currently under way preparatory to selecting the initial drilling locations.

Further seismic surveys are planned during 1972 on Dome's acreage on Meighen, Ellef Ringnes, Amund Ringnes, Haig-Thomas and Melville Islands.

* * *

An agreement has been reached with subsidiaries of Consolidated Gas Supply Corporation of Pittsburgh, Texas Gas Transmission Company and Panhandle Eastern Pipe Line Company of Houston, whereby these three companies will spend a minimum of $30 million in exploratory drilling over a five-year period on Dome lands in the Canadian Arctic Islands, commencing in the fall of 1972. Dome will operate the program and will carry out geological and geophysical surveys necessary to delineate drillable structures.

All of Dome's Arctic Islands acreage (exclusive of its equity interest in Panarctic) is subject to this agreement. On completion of the exploratory drilling program, the Gas Companies will jointly earn 1% of Dome's interest in each prospect drilled plus a competitive call on 75% of Dome's share of gas discovered, subject to export approval by Canadian regulatory bodies. The cost of delineation and development wells will be in addition to the $30 million commitment and will be borne by each of the four parties equally. The three Gas Companies can expand the exploratory drilling program to a maximum of ten years by additional annual commitments of $6 million.

The agreement provides for the recovery by the Gas Companies of their expenditures, plus interest, out of 20% of Dome's share of any production discovered during the period of the exploratory drilling program.

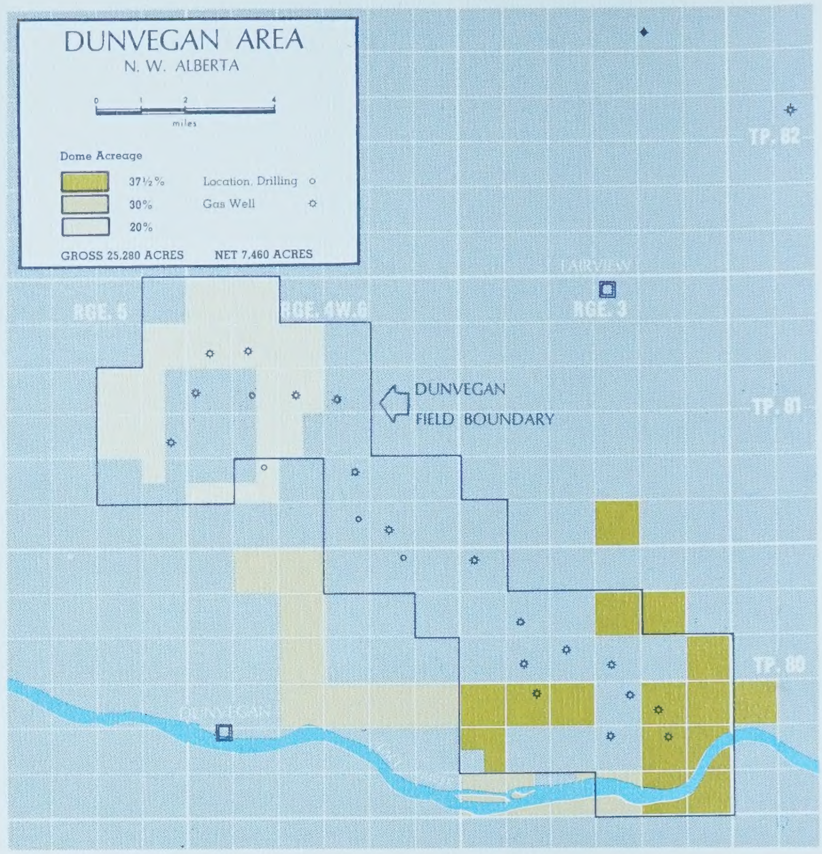
Under a previous agreement, Columbia Gas Development Corporation committed to spend $30 million in exploration on Dome's wildcat acreage for a 7½% interest, plus a competitive call on 25% of Dome's

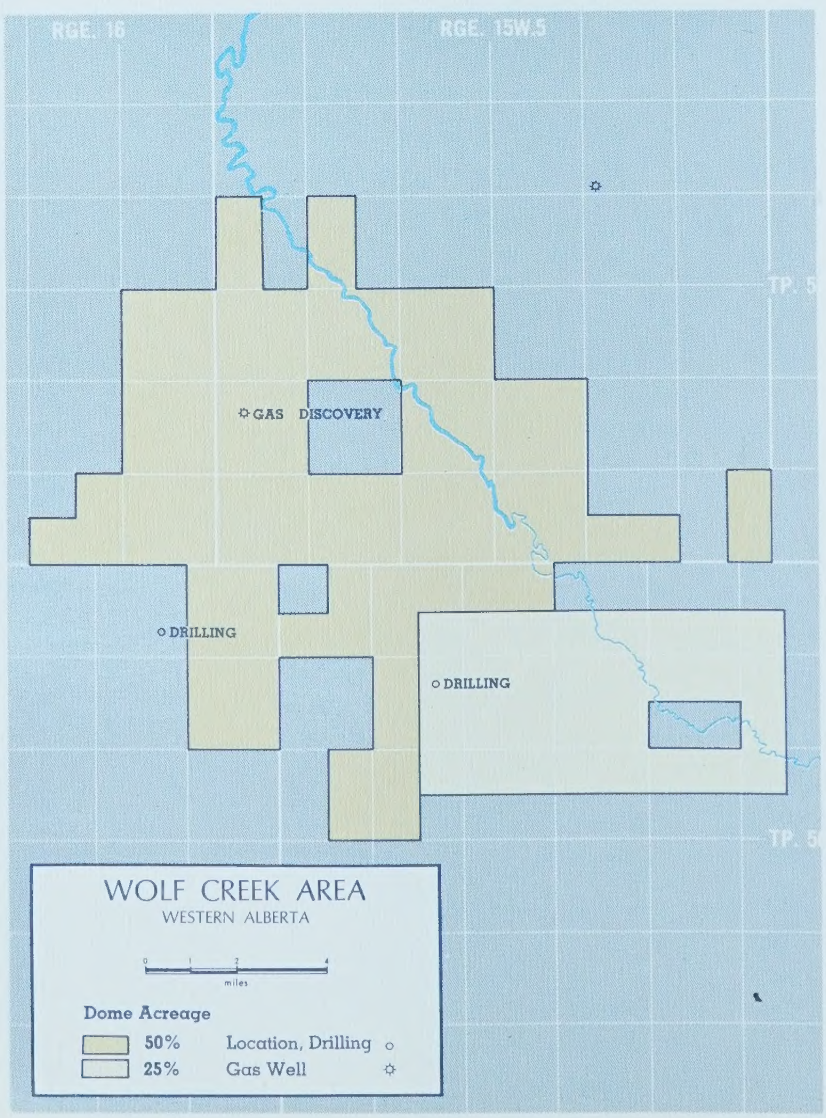
*Fold-out map on opposite page*

ARCTIC ISLANDS
0 25 50 75
miles
DOME ACREAGE
100%
50%
25%
Dome acreage under agreement with Panarctic
Panarctic Acreage
Location, Drilling
Gas Well
Oil Well
Proposed Well 1972-73
Dome Acreage 7,514,000 Gross Acres
6,329,000 Net Acres
MAP AREA
PRINCE PATRICK
MELVILLE
BANKS
VICTORIA
DRAKE POINT

ARCTIC ISLANDS
0 25 50 75
miles
DOME ACREAGE
100%
50%
25%
Dome acreage under agreement with Panarctic
Panarctic Acreage
Location, Drilling
Gas Well
Oil Well
Proposed Well 1972-73
Dome Acreage 7,514,000 Gross Acres
6,329,000 Net Acres
MAP AREA
PRINCE PATRICK
MELVILLE
BANKS
VICTORIA
DRAKE POINT
GAS

AXEL HEIBERG
ROMULUS OIL
ELLESMERE
AMUND
RINGNES
GRAHAM
CORNWALL
DRUP BASIN MAP
DEVON
CORNWALLIS
Resolute
SOMERSET
PRINCE
OF WALES


DUNVEGAN AREA
N. W. ALBERTA
0 1 2 4
miles
Dome Acreage
37½%
30%
20%
Location, Drilling
Gas Well
GROSS 25,280 ACRES
NET 7,460 ACRES
TP. 82
FAIRVIEW
RGE. 5
RGE. 4W.6
RGE. 3
DUNVEGAN
FIELD BOUNDARY
TP. 81
TP. 80
DUNVEGAN


RGE. 16
RGE. 15W.5
GAS DISCOVERY
DRILLING
DRILLING
WOLF CREEK AREA
WESTERN ALBERTA
0 1 2 4
miles
Dome Acreage
50%
25%
Location, Drilling
Gas Well


share of any gas discovered. Expenditures under the new Arctic Islands drilling agreement will fulfil all of Dome's financial obligations under the Columbia agreement.

* * *

During the first quarter of 1972, Dome and its partners in the Britcan-Siebens consortium were awarded a 51,000-acre parcel in the British sector of the North Sea, nine miles west of the large Frigg gas and condensate field in the Norwegian sector. This mineral licence was selected on the basis of reconnaissance seismic surveys, which will be augmented in 1972. Dome's interest is 11¼%.

* * *

Dome continued as a 33% participant with Dome Mines Limited in a mineral exploration program throughout Canada. A number of prospects will be diamond drilled in 1972.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* * *

Dome continued as a 33% participant with Dome Mines Limited in a mineral exploration program throughout Canada. A number of prospects will be diamond drilled in 1972.

# OPERATIONS REVIEW

## PRODUCTION

Production of oil and natural gas liquids amounted to 7,695,612 barrels (21,084 barrels per day) in 1971, up from 6,512,822 barrels (17,843 barrels per day) in 1970.

Natural gas production in 1971 totalled 50.7 billion cubic feet (139 million cubic feet per day) compared with 54.1 billion cubic feet (148 million cubic feet per day) in 1970.

Sulphur production increased slightly from 12,715 long tons in 1970 to 13,840 long tons in 1971.

## DRILLING

In 1971 Dome participated in the drilling of 56 exploratory wells and 25 development wells, of which 52 were drilled at no cost to the Company. These figures exclude an additional 25 wells which were caused to be drilled near Company acreage through options and cash contributions.

The exploratory drilling program resulted in two oil wells and eight gas wells. Seventeen of the 25 development wells were successful, consisting of five gas wells at Dunvegan, six at Provost, one at Vulcan and three at Killam; one oil well at Provost and one in Montana.

At December 31, 1971, the Company held interests equivalent to 426 net producing oil wells and 228 net producing gas wells. In addition, royalty interests were held in 172 producing oil and gas wells.

## PIPELINES

The Company now operates over 1,600 miles of crude oil and product pipelines and 2,000 miles of natural gas gathering and propane distribution pipelines. Average 1971 throughput of crude oil and natural gas liquids exceeded 165,000 barrels per day.

## RESERVES

The Company's estimated net recoverable reserves of oil and natural gas liquids amounted to 109,500,000 barrels at December 31, 1971. This figure excludes reserves in the Athabasca tar sands and heavy gravity oil reserves at Hughenden, Alberta. The slight reduction in oil reserves from the previous year was due to 1971 production and the sale of oil producing properties. No significant additions were made to oil reserves during the year.

Net recoverable natural gas reserves at year-end, excluding all reserves in the Arctic Islands, were estimated to total 1.3 trillion cubic feet. Of these gas reserves, over 600 billion cubic feet are uncontracted.

Estimated sulphur reserves amounted to 202,800 long tons at the end of 1971.

## NATURAL GAS LIQUIDS SYSTEM

During the past three years, the Company has dedicated a large part of its resources to the development of an integrated natural gas liquids (NGL) system. This is a network of gas plants, pipelines and storage facilities by means of which ethane, propane, butane, natural gasoline and condensate are extracted from natural gas in Western Canada and transported to Sarnia, Ontario for further processing and sale in Eastern Canada and the United States. A total of $87 million has been invested in the system since 1969 with Dome's share amounting to $33 million. The Company is the operator of the integrated system and owns approximately 45% of the facilities and products.

The following facilities were added or expanded in 1971:

*Empress Plant.* Construction of the Empress natural gas liquids extraction plant, straddling the main TransCanada pipeline at Empress, Alberta, was completed in the fourth quarter. This $24 million facility, operated by Dome and owned jointly with TransCanada, can produce 20,000 barrels per day of propane, butane and natural gasoline and 27,000 barrels per day of ethane.

*Kerrobert Pipeline and Storage Facility.* An 8 inch diameter pipeline from the Empress plant to Kerrobert, Saskatchewan, and an underground storage facility at Kerrobert with an ultimate capacity of 700,000 barrels, were added to the NGL system in 1971. Natural gas liquids from the Empress plant are delivered into the Interprovincial Pipe Line system through these facilities.

*Sarnia Plant.* The inlet capacity of this fractionation plant at Sarnia, Ontario was doubled in 1971 to 60,000 barrels per day.

*St. Clair Storage.* Development of this underground storage commenced in 1971. Connected to the Sarnia plant by pipeline, it will provide up to 1.8 million barrels of storage for the marketing of NGL in the St. Clair, Michigan area.

*Co-Ed Pipeline.* This pipeline, in which the Company has a 50% interest, was built in 1969 to transport natural gas liquids from the Cochrane extraction plant to Dome's storage facilities at the Interprovincial Pipe Line terminal at Edmonton, Alberta. During the past year the northern 117-mile section of the line, from Rocky Mountain House to

Edmonton, was looped to provide an ultimate capacity of 100,000 barrels per day and a third storage sphere was added at Edmonton. A total of eleven gas plants, including the Dome-interest extraction plants at Edmonton and Cochrane, are now connected to the Co-Ed pipeline and Edmonton storage facilities.

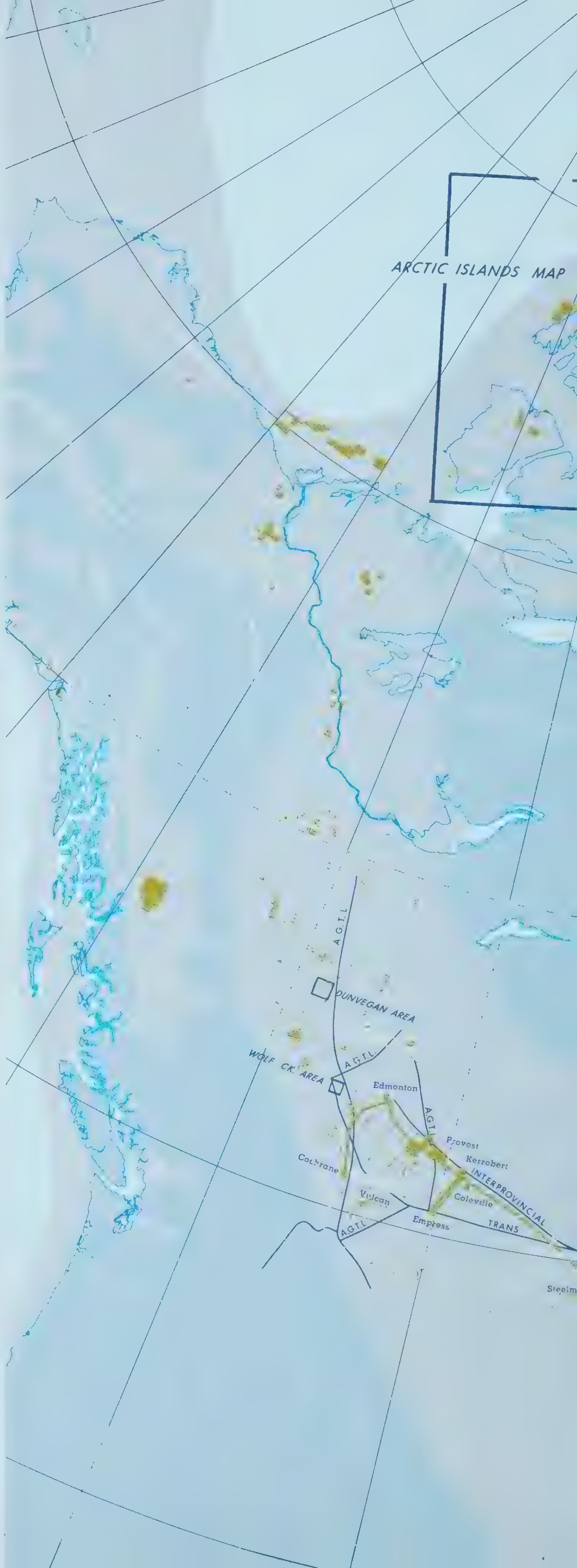
Dome's NGL processing and distribution system also includes processing plants at the Vulcan and Provost gas fields in Alberta, an extraction plant at Coleville, Saskatchewan, a casinghead gas conservation plant at Steelman, Saskatchewan and a three million barrel underground storage plant at Melville, Saskatchewan. Part of the output of natural gas liquids from these facilities is used to supply the Company's propane distribution system in northern Manitoba and its industrial minerals plant in Quesnel, British Columbia.

A substitute natural gas plant is being built by Consumers Power Company at Marysville, Michigan to process 50,000 barrels per day of liquids from the NGL system. Dome will supply 37% of this volume under a long term sales contract. Deliveries to the plant are scheduled to commence in January, 1973.

An agreement has been reached with the subsidiary of a major eastern U.S. gas utility, Columbia LNG Corporation, which will purchase a mixture of ethane, propane, butane and condensate at Green Springs, Ohio, commencing in 1973 at a rate of 85,000 barrels per day. This long term sales contract is subject to the approvals of Canadian and U.S. regulatory authorities.

The Company has made application to Canada's National Energy Board for approval to construct a 2,000 mile natural gas liquids pipeline (the Cochin pipeline) from Edmonton, Alberta to Sarnia, Ontario. This pipeline will fill a major gap in Canada's pipeline network by providing transportation for ethane and other high vapour pressure liquids. In addition to supplying the Sarnia fractionation plant and the Consumers and Columbia substitute natural gas plants, the Cochin pipeline will operate as a common carrier of other companies' natural gas liquids.

The proposed route of the Cochin pipeline, scheduled for completion in 1973, is indicated on the map opposite. The Sarnia area detail map shows the proposed interconnection of the Cochin pipeline and existing Company facilities in the Sarnia area. Separate branch pipelines will connect the underground "breakout" storage at Windsor to Sarnia and Green Springs. The existing pipelines to Marysville and St. Clair are used to transport fractionated products and mixed NGL's from Sarnia.



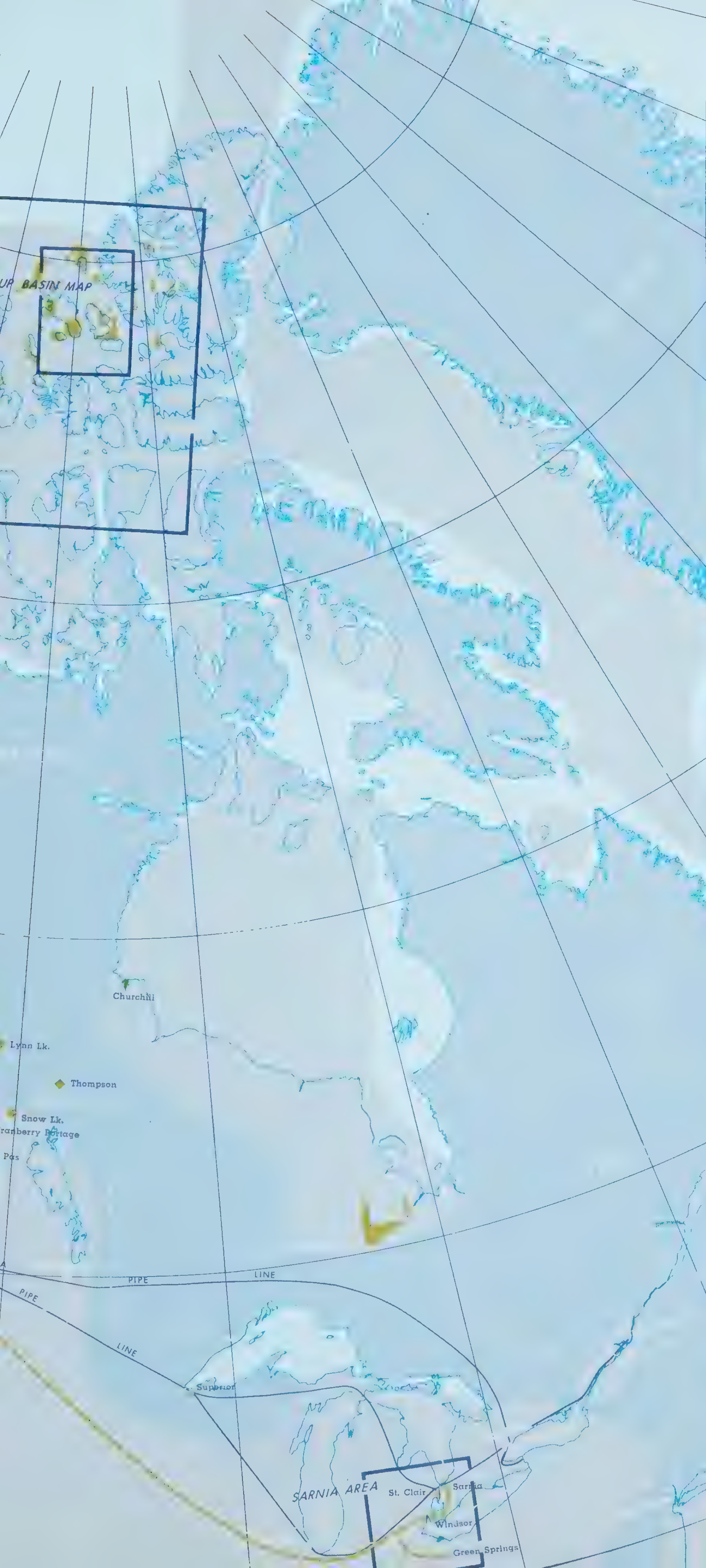
## DOME ACREAGE & INTEGRATED N.G.L. SYSTEM

100 0 100 200 300 400 500
Scale in Miles

- DOME ACREAGE
- EXISTING DOME PIPELINES
- PROPOSED DOME PIPELINES
- OTHER PIPELINES
- DOME PROPANE UTILITY SYSTEM
- POTENTIAL OIL & GAS AREAS

### ACREAGE HOLDINGS

| | Gross | Net |
|---|---|---|
| Alberta | 2,773,000 | 1,697,000 |
| British Columbia | 2,376,000 | 1,614,000 |
| Saskatchewan & Manitoba | 339,000 | 160,000 |
| Ontario | 1,868,000 | 937,000 |
| Arctic Islands | 7,514,000 | 6,329,000 |
| Mackenzie Valley & Delta | 4,690,000 | 3,395,000 |
| Canadian East Coast | 2,082,000 | 1,873,000 |
| Alaska & Other U.S. | 470,000 | 398,000 |
| | 22,112,000 | 16,403,000 |





N.G.L. SYSTEM – SARNIA AREA

## CONSOLIDATED STATEMENT OF INCOME
### YEARS ENDED DECEMBER 31, 1971 AND 1970

| | 1971 | 1970 |
|---|---|---|
| GROSS SALES AND OTHER REVENUES | $41,510,000 | $28,589,000 |
| DEDUCT: | | |
| Operating and marketing expenses | 9,573,000 | 7,186,000 |
| Cost of propane and other products sold | 11,243,000 | 4,748,000 |
| General and administrative expenses | 728,000 | 403,000 |
| Interest on long term debt | 3,490,000 | 2,341,000 |
| Other interest | 574,000 | 793,000 |
| | 25,608,000 | 15,471,000 |
| CASH INCOME FROM OPERATIONS | 15,902,000 | 13,118,000 |
| DEDUCT: | | |
| Depreciation | 3,162,000 | 2,407,000 |
| Depletion | 2,537,000 | 2,684,000 |
| | 5,699,000 | 5,091,000 |
| INCOME BEFORE EXTRAORDINARY ITEMS | 10,203,000 | 8,027,000 |
| EXTRAORDINARY ITEMS: | | |
| Gain on sale of investments | 417,000 | 686,000 |
| Recovery of income taxes paid by subsidiaries | — | 1,392,000 |
| | 417,000 | 2,078,000 |
| NET INCOME FOR THE YEAR (NOTE 6) | $10,620,000 | $10,105,000 |
| NET INCOME PER SHARE (on weighted monthly average number of shares outstanding during the year) | | |
| Income before extraordinary items | $1.00 | $ .79 |
| Extraordinary items | .04 | .21 |
| Net income | 1.04 | 1.00 |

## CONSOLIDATED STATEMENT OF RETAINED EARNINGS
### YEARS ENDED DECEMBER 31, 1971 AND 1970

| | 1971 | 1970 |
|---|---|---|
| BALANCE AT BEGINNING OF YEAR | $64,892,000 | $54,787,000 |
| Net income for the year | 10,620,000 | 10,105,000 |
| BALANCE AT END OF YEAR | $75,512,000 | $64,892,000 |

*See accompanying notes.*

## CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

YEARS ENDED DECEMBER 31, 1971 AND 1970

| | 1971 | 1970 |
|---|---|---|
| **Source of Funds:** | | |
| Cash income from operations | $15,902,000 | $13,118,000 |
| Extraordinary items: | | |
| Gain on sale of investments | 417,000 | 686,000 |
| Recovery of income taxes paid by subsidiaries | — | 1,392,000 |
| Deferred production income | 5,200,000 | — |
| Issues of long term debt | 7,299,000 | 35,094,000 |
| Issues of capital stock | 675,000 | 685,000 |
| Reduction of deposits, long term receivables and other investments | 304,000 | 337,000 |
| | 29,797,000 | 51,312,000 |
| **Application of Funds:** | | |
| Expenditures for property, plant and equipment | 28,838,000 | 38,915,000 |
| Less amount contributed by Columbia Gas Development Corporation (Note 7) | 8,073,000 | — |
| | 20,765,000 | 38,915,000 |
| Reduction of long term debt | 8,574,000 | 3,354,000 |
| Investment in Panarctic Oils Ltd. | 708,000 | 653,000 |
| | 30,047,000 | 42,922,000 |
| **Increase (Decrease) in Working Capital** | $ (250,000) | $ 8,390,000 |

## CONSOLIDATED STATEMENT OF PAID-IN SURPLUS (NOTE 5)

YEARS ENDED DECEMBER 31, 1971 AND 1970

| | 1971 | 1970 |
|---|---|---|
| **Balance at beginning of year** | $14,024,000 | $13,402,000 |
| Add premium on shares issued | 562,000 | 622,000 |
| | 14.586,000 | 14,024,000 |
| Less transferred to share capital | 14,586,000 | — |
| **Balance at end of year** | $ — | $14,024,000 |

*See accompanying notes.*

# CONSOLIDATED BALANCE SHEET

YEARS ENDED DECEMBER 31, 1971 AND 1970

| ASSETS | 1971 | 1970 |
|---|---|---|
| **CURRENT:** | | |
| Cash | $ 4,384,000 | $ 3,405,000 |
| Marketable securities at cost which approximates market | 77,000 | 578,000 |
| Accounts receivable | 12,393,000 | 9,604,000 |
| Income taxes recoverable | — | 1,745,000 |
| Inventories of products at the lower of cost or net realizable value | 4,204,000 | 2,954,000 |
| Materials and supplies at cost | 593,000 | 682,000 |
| | 21,651,000 | 18,968,000 |
| **FIXED (NOTE 2):** | | |
| Property, plant and equipment at cost | 224,211,000 | 203,658,000 |
| Less accumulated depreciation and depletion | 46,447,000 | 41,039,000 |
| | 177,764,000 | 162,619,000 |
| **OTHER:** | | |
| Shares of Panarctic Oils Ltd. at cost | 2,189,000 | 1,481,000 |
| Deposits, long term receivables, and other investments | 726,000 | 1,109,000 |
| | 2,915,000 | 2,590,000 |
| | $202,330,000 | $184,177,000 |

*See accompanying notes.*

## AUDITORS' REPORT

To the Shareholders of
Dome Petroleum Limited.

We have examined the consolidated balance sheet of Dome Petroleum Limited and its subsidiaries at December 31, 1971 and the consolidated statements of income, paid-in surplus, retained earnings and source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

| LIABILITIES | 1971 | 1970 |
|---|---|---|
| CURRENT: | | |
| Bank loans (Note 3) | $ 7,200,000 | $ 13,300,000 |
| Accounts payable and accrued liabilities | 8,884,000 | 5,261,000 |
| Long term debt due within one year | 9,238,000 | 3,828,000 |
| | 25,322,000 | 22,389,000 |
| DEFERRED PRODUCTION INCOME | 5,200,000 | |
| LONG TERM DEBT (NOTE 4) | 73,102,000 | 74,377,000 |
| SHAREHOLDERS' EQUITY (NOTE 5): | | |
| Capital — | | |
| Authorized — 15,000,000 shares of no par value | | |
| Issued — 10,264,404 shares (1970 - 10,194,342) | 23,194,000 | 8,495,000 |
| Paid-in surplus | — | 14,024,000 |
| Retained earnings | 75,512,000 | 64,892,000 |
| | 98,706,000 | 87,411,000 |
| | $202,330,000 | $184,177,000 |

On behalf of the Board:

Clifford W. Michel, Director.

Director.

In our opinion, except that no provision has been made for deferred income taxes in respect of depreciable assets as explained in Note 6, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Canada.
March 14, 1972.

CLARKSON GORDON & CO.
Chartered Accountants.

1. Basis of Consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. The excess of the cost of investment in subsidiaries over their net book values at dates of acquisition has been allocated to property, plant and equipment in the accompanying balance sheet.

The accounts of the U.S. subsidiaries have been translated into Canadian dollars on the following basis: current assets and current liabilities at the rate of exchange in effect at the year-end, fixed assets and long term debt at historical rates, and income and expenses at the average rates for the year. The net gain on translation, which is not material in amount, has been included in income.

2. Property, Plant and Equipment

| | *Gross investment at cost* | *Accumulated depreciation and depletion* | *Net investment 1971* | *Net investment 1970* |
|---|---|---|---|---|
| Oil and gas properties | $ 95,101,000 | $18,160,000 | $ 76,941,000 | $ 78,523,000 |
| Plants, buildings, pipelines and related facilities | 108,588,000 | 24,246,000 | 84,342,000 | 67,967,000 |
| Production and other equipment | 20,522,000 | 4,041,000 | 16,481,000 | 16,129,000 |
| | $224,211,000 | $46,447,000 | $177,764,000 | $162,619,000 |

The companies follow the full-cost method of accounting wherein all costs relative to the exploration for and the development of oil and gas reserves, whether productive or non-productive, are capitalized and depleted on the composite unit-of-production method based on estimated proven reserves of oil and gas. Production and other equipment is depreciated on the composite unit-of-production method, while plants, buildings, pipelines and related facilities are depreciated on the unit-of-production method or the straight line method, whichever is appropriate in the circumstances.

Plants, buildings, pipelines and related facilities includes $33,372,000 (1970 - $18,536,000) expended on an integrated natural gas liquids system, of which $26,960,000 relates to assets still under construction. Interest related to the financing of the system is being capitalized during the construction period and amounted to $1,473,000 in 1971 ($1,234,000 in 1970).

3. Bank Indebtedness

Bank indebtedness is partially secured by an assignment of accounts receivable and an undertaking to provide oil and gas security if requested.

4. Long Term Debt

| | *Maturity* | *1971* | *1970* |
|---|---|---|---|
| First Mortgage Bonds — | | | |
| 3¾% Sinking fund bonds | 1971 | $ — | $ 200,000 |
| 5¾% Sinking fund bonds | 1973 | 985,000 | 985,000 |
| 5¾% Sinking fund bonds | 1978 | 2,100,000 | 2,374,000 |
| 5¾% Serial bonds (U.S. $9,847,000) | 1984 | 10,622,000 | 11,165,000 |
| 6½% Bonds | 1985 | 814,000 | 849,000 |
| Debentures — | | | |
| 6% Sinking fund debentures | 1973 | 2,000,000 | 2,000,000 |
| 5% Convertible income debentures | 1988 | 15,000,000 | 15,000,000 |
| Term bank loans, with interest varying from ½% to 1% in excess of the prevailing prime bank rate | 1972 to 1981 | | |
| Canadian | | 34,570,000 | 29,632,000 |
| U.S. $15,150,000 | | 16,249,000 | 16,000,000 |
| | | 82,340,000 | 78,205,000 |
| Less amounts due within one year | | 9,238,000 | 3,828,000 |
| | | $73,102,000 | $74,377,000 |

The 5% Convertible Income Debentures are secured by a floating charge on all of the Company's undertaking, property and assets, both present and future, are convertible at any time to May 15, 1988 into common shares of the Company at $28.25 per share and are redeemable after May 15, 1973 at 105 percent of the principal amount.

Term bank loans of $21,946,000 maturing in 1979 are secured by demand debentures which represent first floating charges on the assets and contracts comprising the construction program for which the funds were borrowed. The other term loans are secured by certain producing properties and pipeline facilities.

Approximate instalments of long term debt (including sinking fund payments) due in each of the years 1973 to 1976 are as follows: 1973 - $10,061,000; 1974 - $8,377,000; 1975 - $8,862,000; 1976 - $6,589,000.

5. Capital

On August 18, 1971, the Company obtained supplementary letters patent altering its capital from shares of a par value of $2.50 each to shares of no par value and subdividing each authorized share, both issued and unissued, into three new shares. All references to number of shares and income per share in the accompanying financial statements, including those for the prior year, give effect to the 3-for-1 split.

During the year 67,659 shares were issued on the exercise of options for $675,000 cash and 2,403 shares were issued in exchange for shares of Provo Gas Producers Limited. The excess of the proceeds received over the par value of shares issued prior to August 18, 1971, amounting to $562,000, was credited to paid-in surplus and in recognition of the change to no par value shares, the balance of paid-in surplus at that date was transferred to share capital.

At December 31, 1971, 908,571 shares of the Company's stock were reserved as follows:

530,910 shares for the conversion of the 5% Convertible Income Debentures,

363,891 shares for options granted to officers and employees (of which options on 165,839 shares relate to officers) exercisable on various dates to April 25, 1981 at prices ranging from $4.27 to $27.08 per share,

13,770 shares for the shares of Provo Gas Producers Limited not yet presented for exchange.

6. Income Taxes

For income tax purposes, the companies are entitled to claim drilling, exploration and lease acquisition costs and capital cost allowances (depreciation) in amounts which exceed the related charges to income. As a result, no income taxes are payable in respect of income reported for the year ended December 31, 1971; and at that date accumulated expenditures of $65,100,000 were available to be carried forward and applied against future taxable income.

The companies believe that tax allocation accounting as recommended by the Canadian Institute of Chartered Accountants is not appropriate in the oil and gas industry and accordingly no provision has been made for deferred taxes on timing differences. If the tax allocation basis had been followed, deferred income taxes would have been provided in 1971 in the amount of $4,082,000 ($.40 per share) and in 1970 in the amount of $4,107,000 ($.40 per share) and net income for those years would have been reduced accordingly. Of the foregoing, $2,053,000 ($.20 per share) in 1971 and $1,465,000 ($.14 per share) in 1970 are in respect of depreciable assets.

The accumulated income tax reductions relating to all timing differences in the current and prior years amounted to $26,411,000 at December 31, 1971 and $22,329,000 at December 31, 1970.

7. Columbia Gas Development Corporation

Under an agreement with Columbia Gas Development Corporation of Delaware, Columbia will earn an undivided 7½% interest in the Company's exploratory acreage by contributing $30,000,000 towards a joint exploration and land acquisition program, at the rate of approximately $10,000,000 per year.

8. Directors and Officers

The eight members of the Board do not receive any remuneration for their services as directors. Four of the directors are also officers. The aggregate remuneration paid in 1971 to the eight officers was $83,000.

# TEN YEAR REVIEW

## FINANCIAL

(DOLLAR AMOUNTS IN THOUSANDS EXCEPT PER SHARE FIGURES)

| YEAR | Gross Income (after royalties) | Operating Expenses | Cost of Product | General and Admin. Expenses | Interest | Cash Income after Interest | Cash Income after Interest per Share | Depreciation Depletion an Amortizatio |
|---|---|---|---|---|---|---|---|---|
| 1971 | 41,510 | 9,573 | 11,243 | 728 | 4,064 | 15,902 | 1.55 | 5,699 |
| 1970 | 28,589 | 7,186 | 4,748 | 403 | 3,134 | 13,118 | 1.29 | 5,091 |
| 1969 | 23,592 | 5,638 | 2,109 | 273 | 2,796 | 12,776 | 1.27 | 4,389 |
| 1968 | 24,561 | 5,322 | 1,905 | 361 | 2,521 | 14,452 | 1.44 | 4,374 |
| 1967 | 21,769 | 4,669 | 2,275 | 481 | 2,183 | 12,161 | 1.22 | 3,800 |
| 1966 | 17,848 | 4,165 | 1,665 | 520 | 1,780 | 9,718 | .98 | 3,295 |
| 1965 | 15,243 | 3,580 | 899 | 359 | 1,423 | 8,983 | .91 | 3,210 |
| 1964 | 13,708 | 3,174 | 336 | 340 | 1,187 | 8,672 | .88 | 2,902 |
| 1963 | 12,200 | 2,955 | 306 | 301 | 1,035 | 7,602 | .77 | 2,701 |
| 1962 | 10,181 | 2,389 | 180 | 237 | 1,084 | 6,292 | .64 | 2,570 |

## OPERATING

| YEAR | PRODUCTION | | | | | | RESERVES | |
|---|---|---|---|---|---|---|---|---|
| | Oil and Natural Gas Liquids (net bbls) | Average Daily Oil and N.G.L. (net bbls) | Gas (billion cubic feet) | Average Daily Gas (million cubic feet) | Average Daily Oil, N.G.L. and O.E.G. (net bbls) | Sulphur (long tons) | Est. Remaining Oil and N.G.L. (net bbls) | Est. Remainin Gas (billion cubic feet) |
| 1971 | 7,695,612 | 21,084 | 50.7 | 138.9 | 28,185 | 13,840 | 109,500,000 | 1,297 |
| 1970 | 6,512,822 | 17,843 | 54.1 | 148.3 | 25,562 | 12,715 | 114,000,000 | 1,306 |
| 1969 | 6,231,010 | 17,071 | 48.7 | 133.4 | 24,079 | 12,131 | 116,900,000 | 1,184 |
| 1968 | 6,259,450 | 17,102 | 51.8 | 141.6 | 24,615 | 13,841 | 73,300,000** | 1,100** |
| 1967 | 5,757,849 | 15,775 | 43.7 | 119.7 | 21,238 | 6,353 | 61,890,000** | 1,011** |
| 1966 | 4,972,284 | 13,623 | 37.2 | 101.9 | 18,280 | 3,700 | 59,267,000** | 919** |
| 1965 | 4,445,043 | 12,178 | 36.8 | 100.8 | 16,532 | 883 | 53,830,000 | 829 |
| 1964 | 4,203,161 | 11,484 | 35.7 | 97.5 | 15,896 | 661 | 50,769,000 | 793 |
| 1963 | 3,857,801 | 10,569 | 34.9 | 95.6 | 14,912 | 1,016 | 48,300,000 | 754 |
| 1962 | 2,967,233 | 8,129 | 35.1 | 96.2 | 12,543 | 2,339 | 44,600,000 | 770 |

*Includes extraordinary items.
**Excludes Zama and other confidential reserves.

*Shares outstanding and per share figures are adjusted for 1971 stock split. Figures for all years include Provo Gas Producers Limited.*

| Net Income | Net Income per Share | Average Shares Outstanding | Long Term Debt | Land Rentals | Exploration Costs | Development Costs | Plants, Pipe-lines & Related Facilities | Land Acquisition Costs |
|---|---|---|---|---|---|---|---|---|
| 10,620* | 1.04* | 10,235,000 | 73,102 | 1,223 | 4,552 | 2,827 | 18,991 | 1,245 |
| 10,105* | 1.00* | 10,153,000 | 74,377 | 1,061 | 3,452 | 1,223 | 30,865 | 2,314 |
| 8,387 | .83 | 10,098,000 | 42,637 | 1,259 | 3,718 | 5,447 | 14,010 | 4,274 |
| 10,078 | 1.00 | 10,045,000 | 38,228 | 1,354 | 2,668 | 6,535 | 4,068 | 3,744 |
| 8,361 | .84 | 9,945,000 | 29,270 | 815 | 4,576 | 7,526 | 4,927 | 3,626 |
| 6,424 | .65 | 9,907,000 | 23,978 | 665 | 2,773 | 5,869 | 1,796 | 2,472 |
| 5,774 | .58 | 9,899,000 | 21,264 | 551 | 1,574 | 5,598 | 4,138 | 919 |
| 4,085 | .41 | 9,852,000 | 18,096 | 530 | 1,154 | 3,655 | 1,775 | 5,560 |
| 3,386 | .34 | 9,839,000 | 14,476 | 473 | 1,043 | 4,130 | 1,824 | 1,044 |
| 2,204 | .22 | 9,828,000 | 13,133 | 446 | 1,072 | 3,462 | 3,278 | 1,809 |

| WELLS DRILLED | | | | | | NET WELLS | | ACREAGE | |
|---|---|---|---|---|---|---|---|---|---|
| Gross | Working Interest Gross | Working Interest Net | Royalty Interest | Exploratory Gross | Step Out and Development Gross | Oil | Gas | Gross | Net |
| 81 | 57 | 19.3 | 24 | 56 | 25 | 426 | 228 | 22,112,066 | 16,403,228 |
| 92 | 64 | 45.9 | 28 | 66 | 26 | 424 | 222 | 22,255,941 | 17,209,425 |
| 75 | 58 | 38.3 | 17 | 36 | 39 | 426 | 187 | 23,777,692 | 19,127,099 |
| 134 | 116 | 87.3 | 18 | 82 | 52 | 414 | 168 | 19,593,390 | 15,931,523 |
| 102 | 88 | 68.5 | 14 | 54 | 48 | 359 | 131 | 13,268,294 | 11,003,613 |
| 104 | 97 | 67.0 | 7 | 49 | 55 | 335 | 117 | 7,504,166 | 5,212,851 |
| 100 | 88 | 65.7 | 12 | 37 | 63 | 309 | 99 | 6,064,597 | 3,829,128 |
| 70 | 61 | 43.1 | 9 | 22 | 48 | 269 | 83 | 6,745,955 | 4,194,810 |
| 66 | 64 | 41.0 | 2 | 8 | 58 | 237 | 79 | 6,763,610 | 4,204,095 |
| 54 | 54 | 32.7 | — | 16 | 38 | 200 | 75 | 6,570,663 | 3,988,641 |

N.G.L. — Natural Gas Liquids     O.E.G. — Oil Equivalent of Gas

**DOME PETROLEUM LIMITED**
**1971 ANNUAL REPORT**
AND FIRST QUARTER 1972

FOOTHILL PRINTERS LIMITED . CALGARY
LITHOGRAPHED IN CANADA